THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF LOCAL AIRLINES IN KENYA

BY

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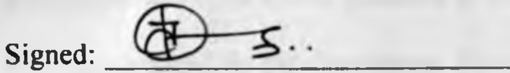
DECLARATION

This research project is my original work and has not been submitted to any other college, institution or university.



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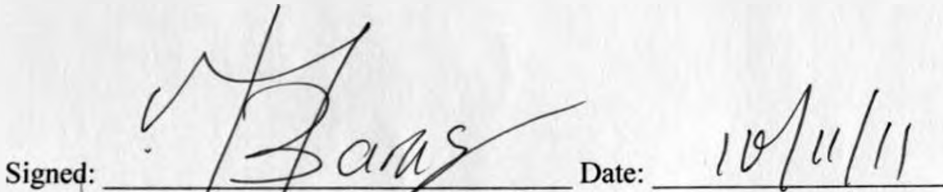
This Research project has been submitted for examination with the approval as University Supervisor.



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DEDICATION

To Rose Anyango, my wife, and children David, Beverly and Betsy, for their patience and encouragement throughout the duration of my study. To my late Father, David Liech and Mother Risanael Akelo for their love in educating me. In my early school days they sent me to school at a tender age to pursue knowledge and later acquire great achievements in life. You are special people in my life.

ABSTRACT

This research paper presents the relationship between corporate governance practices and financial performance of local airlines in Kenya. The paper begins with a brief introduction and theories corporate governance which includes the Agency theory, Transactions cost economics and the Life cycle theory of firm. The paper highlights the importance of good corporate governance practices, the measures of financial performance. the past and present state of airlines industry in Kenya.

The paper explains how corporate governance practices is measured by use of the corporate governance index (GCI), which is a score of various corporate governance questions derived from the various corporate governance codes of the Capital markets authority. The codes are grouped into four sub indices namely: Shareholders rights, Directors composition and structure. Ownersip structure, Disclosure and audit and compensation policy. Return on assets (ROA) is also explained in the paper and how it is used as a measure of financial performance.

A total of 30 local airlines were considered for study which is the total population of operational local airlines in Kenya. No sampling was done as the entire population was considered small hence all the element in the entire population was considered for study. The study employed drop and pick questionnaires. The type of the data was quantitative in nature, which was analyzed using SPSS computer package.

The study found that there is a significant relationship between corporate governance practices and financial performance of airlines. And airlincs with strong corporate governance practices also have better financial performance, with a degree of variation on Return on assets at 81.4%.

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LIST OF ABBREVIATIONS

ANOVA: Analysis of variance

ATAG: Air Transport Group

ATC: Air Traffic Control

BA: British Airways

CGI: Corporate governance index

CIPE: Centre for International Private Enterprise

CMA Capital Market Authority

IATA: International Air Transport Association

ICAO: International Civil Aviation Organization

JKIA: Jomo Kenyatta International Airport

KAA: Kenya Airports Authority

KCAA: Kenya Civil Aviation Authority

KLN: Royal Dutch Airlines

KQ: Kenya Airways

MIA: Moi International Airport

NSE Nairobi stock Exchange

OECD: Organization for Economic Co-operation and Development

OEF: Oxford Economic Forecasting

OLS: Ordinary Least Square

PE: Price Earnings Ratio

PM: Profit Margin Authorities

PSCGT: Public sector corporate governance trust

ROA: Return on Assets

WAP: Wilson Airport

WB: World Bank

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1Background of the study

In the recent uncertain economic times, there are deep seated global economic problems impacting on commerce and industry. Business, trade and investment are essential pillars for continuing prosperity and peace. Responsible business practices need rules to ensure that unscrupulous companies will not undercut them through exploitative practices. Business need fair set of rules based on values. Good corporate governance practices is therefore an essential element in the framework of rules to assist boards of organizations in fulfilling their responsibilities of representing shareholders interest in optimizing long term financial returns and addresses the concerns of other stakeholders and interested parties including employees, customers, suppliers, the government and public at large. (Ayse,2008).

As a demonstration of the magnitude of importance of corporate governance practices, it is imperative to revisit the causes of failures of some corporations worldwide in the recent past, which has been cited by various scholars. For example, Monks & Minow, (2000) and Roberts, (2005), have attributed corporate collapses of giant corporations, such as the Enron and WorldCom in the United States and Heath International Holdings Insurance in Australia to weak governance practices. Lambert & Sponem, (2005), further points out that as the sense and feeling of poor corporate governance practices permeated corporations worldwide, the confidence in financial reports diminished among investors and creditors, and a sense of urgency was felt among regulators in many different countries all over the world to restore public confidence and to protect shareholders and investors. This showed the close link that lies between corporate governance and financial statements. According to

Ayse (2008), there has been pressure for better corporate governance practices as the business environment became more volatile, less predictable, more globalised and risky. (Doost & Fishman, 2004), pointed out that it was evident that the existing governance framework was inadequate, and the usual response was to bring new legislation intended to improve transparency, accountability and integrity. Many other scholars of corporate governance have indicated that corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization. These might be owners, managers, workers or consumers. Second, transaction costs are, such that this agency problem cannot be dealt with through a contract.

Ayse (2008), further explains that the business environment of the 21st century has brought new risks and impacts that threaten survival of every organization including airlines. Airlines have been forced to re look at new challenges and tap opportunities for continuity and prosperity. The management and boards of directors of airlines are expected to make informed decisions based on the business complexity through active risk management. The airline industry is highly volatile with uncertain business environment. Good business management and corporate strategy on the part of the airline management and the board of directors, is required and can only accomplished through implementation of good corporate governance practices, to enable innovations and tapping of the opportunities.

According to the Public Sector Corporate Governance Trust (2002), (PSCGT)), corporate governance is the manner in which power of a corporation is exercised in the stewardship of the corporation total portfolio of assets and resources with the objective of maintaining and increasing shareholders value and satisfaction of other stakeholders in the context of its corporate mission. Corporate governance explains the efficient use of the resources and

accountability together with the use of power and stewardship to create a balance between economic and social goals for the corporation to be successful.

Corporate governance mainstreams interests of individuals, corporations and society to meet the well defined objectives and long term strategic goals: in a fair, efficient, transparent, value adding processes in a well structured system. The composition on corporate governance can be divided into two and according to the World Bank report in 1999, corporate governance is composed of both external and internal mechanisms. The internal mechanism involves ability to supervise managers directly and also deals with the rights of shareholders, participation in decision-making, and the independent character of the board of directors and supervisors. External corporate governance mechanism on the other hand, is related to regulations, laws and stakeholders of organization. The laws here include the labour laws, tax laws, company act, and local authority by laws. The World Bank and Organization for Economic Co-operation and Development (OECD), established a global governance forum with the aim of establishing appropriate policy on regulatory and corporate reforms and to coordinate and disseminate corporate governance activities and provide corporate reforms development and capacity building; train various professionals, and other agents essential in bringing about a culture of compliance (Musyoki, & Wambua, 2006).

1.1.1 Local airline industry

In our short introduction of the airlines, it is imperative to have an overview of the whole aviation industry in order to appreciate the importance of airlines. Air transport is a full set of activities required to satisfy mobility needs by air. The major stakeholders in today's air transport industry include the following: end users i.e. passengers and freight; the airspace

users i.e. scheduled and non scheduled airlines; The aerodrome community; and the air navigation service providers (ANSPs); the supply industry which include aircraft manufacturers; suppliers of items used air traffic management and airports; the regulatory authorities namely the international civil aviation organization (ICAO); and airspace providers i.e. the governments. These groups influence the behaviour of others by shaping the right conditions. In a nutshell, air transport comprises of two sectors namely: 1). The aviation sector which comprises of airports, airlines, general aviation and air navigation service providers. 2). Civil aerospace sector which include the manufacture and maintenance of aircrafts systems, frames and engine. In our study we shall concentrate only on one component, the airlines.

Oladele (2005), observed that in 2001, Africa accounted for approximately 3.5%of the world's air cargo traffic in terms of tonnage while Europe accounted for 65% of all African foreign air trade. The inadequacy of land transport infrastructure and services in Africa provides additional incentive to improve the efficiency of air transport. This is can only be achieved if there are good management practices and in a nutshell good corporate governance practices in the industry.

Air transport is a safe, mature and irreplaceable mode of transport, which creates substantial value addition to the end user customers. It plays key roles in governments across the world. Local and global economies enjoy increasing Gross Domestic Product (GDPs) and employment. It also facilitates world trade and global business. The global view of air transport focuses on two things namely

Need to liberalize air carrier ownership and control, which erstwhile has been under various individual country government ownership and control. 2). Need for fair competition and protection of consumer interest.

According to one of the studies done by Air Transport Group (ATAG), the growing availability of affordable air travel has considerably widened aviation role in our society. Air transport is no longer a luxury commodity but as a necessity in our everyday life. Air transport has not only underpinned wealth creation in the developed world, but has also brought enormous benefits to the developing economies by unlocking their potential for trade and tourism. Good air transport links influence where companies choose to invest. Hence good corporate governance principles and practices in this sector are imperative for its survival and growth.

According to East Africa Air transport survey of 2004, the Kenyan domestic air transport market is predominantly controlled by scheduled flights. Charter traffic is minimal and has declined from 3.3% in 2000 to 1% in 2004. The survey further states that Nairobi-Mombasa route is the most dominant controlling 74% followed by Nairobi- Kisumu route. It further states that Kenya airways and its sister company Precission air enjoys the lion's share, given the big size and number of their fleet.

Air transport is significantly important and complements other modes of transport, given the distance between different towns. In recent times before the current shift in government policy of rehabilitating roads, the roads in the rural areas and national parks were in tatters. The railway network is scanty, poorly maintained and outdated and occasionally only used to carry some goods for export and not passengers, leaving air transport as the only quickest and affordable way of connecting all parts of Kenya and other regional towns. There is need

for improvement of air services and air transport infrastructure through prudent management and good governance management practices in the industry.

1.1.2 Financial Performance

Firm performance is a measure of financial performance, operating performance and the valuation of a firm. These measures are achieved by calculating the Financial and operating ratios as follows: Return on Assets (ROA). Return on assets (ROA) = (Profit after tax + interest before tax)/ Total assets.

1.2Research Problem

Over the years it has been noted that the air transport in Kenya has continued to grow, Local airlines as well as international airlines have grown in numbers and frequency of travel. Jomo Kenyatta international airport (JKIA) has become as the hub of air travel leading in cargo volumes for both exports and imports. Passenger numbers has also increased over the years due to the growing tourism industry. Horticultural industry has also grown over the years leading to increased exports of fresh produce and cut flowers to Europe and Middle East. The growing economy and passenger volumes but indigenous airlines have not grown and matured at the same pace.

According to Bowen (2002), air transport industry and the networks it operates has been described as the most politicized. Competition among places in international network takes place in a setting that is powerfully shaped by the state. Liberalization and globalization has allowed formerly state owned carriers to be partially privatized, giving room for the members of the public and other investors to own these airlines, through public issue of shares and trading of the same in the various stock exchanges. Private investors have also formed airline companies to operate on these routes giving rise to stiff competitions in the

"open skies". These recent developments have also made the challenges of requirement of good business and management practices, which require good corporate governance practices.

Personal interviews on July 20, 2010 with some local air operators in the aviation industry revealed that some local and international airlines in Kenya experience management challenges, which make them encounter difficulties in their financial operations, as they become heavily indebted, with some being forced to wind up their operations. The result of these challenges lead to lay off of workers, and affecting shareholders and other stakeholders whose financial interests in the companies are weakened or completely wiped out. These challenges could be attributed to weak good corporate governance practices among other reasons in the industry, given the history of the industry.

This research therefore hopes to establish whether there is a relationship between corporate governance practices and financial performance of airline industry in Kenya, and the extent, if any, of the relationship. And to fill that gap of research and literature in this industry, which has been overlooked before.

1.3 Objectives of the Study

The main objective of the study is to investigate whether there is a close relationship between corporate governance practices and financial performance of airlines Kenya.

1.4 Significance of the study

This study will serve as an invaluable tool to address that gap of literature on corporate governance practices on airlines in Kenya, an industry which has undergone through various changes and stages in the recent past. In addition, this will be one of the few studies

that will estimate the relationship between of corporate governance practices and financial performance in the airline industry.

1.5 Justification of the study

This study is therefore an attempt to bridge the gap and add an insight in the understanding of the role of corporate governance practices in the airline industry in Kenya. The study will serve as an invaluable tool to address the gap of literature on corporate governance practices in local airlines. The research seeks better ways of nurturing this sector through identifying and recommending suggested remedial measures.

In a nutshell, the study will help shareholders, other stakeholders and corporate managers to understand the importance of corporate governance in the airline industry. The study will also be of benefit government and other policy makers to appreciate the aspects of good governance practices that influence financial performance in airline industry in Kenya and use the results to nurture this industry, for posterity and attain economic growth. To the academia, the research is a fertile ground for undertaking further studies aimed at improving governance practices in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theories guiding corporate governance

The study and importance 0f corporate governance practices originate from three schools of thought namely the agency theory, transaction cost economics and the life cycle theory of a firm. Out of the three theories of corporate governance, the agency theory has attracted a lot of interest in terms of studies since its introduction by Jensen and Meckling in 1976. According to this theory, shareholders are the owners or principals of the firm, while management is an agent of shareholders and their economic interest are divergent which results into conflict of interest between principals and agents. According to Jensen and Meckling (1976), most corporate abuses originate from the agency theory, which suggests that the interest of principals and agents will not coincide and in the absence of sufficient monitoring or appropriate incentives, agents will exercise their discretion to the detriment of the principles. Indeed corporate governance is not sufficient but, most of the time a necessary condition for an ethical direction of management, by the board of directors.

Gedajilovic and Shapiro (1998), further contends that managerial discretion are manifested in two forms that may create agency costs namely: engaging in run costs augmenting activities to enhance their salary income or to provide other form of on- the job consumption, a type of behaviour known as padding, which reduces corporate profits by increasing costs. Secondly managers may indulge in their need for power, prestige and status by making long term strategic choices designed to maximize corporate size and growth rather than corporate profits i.e. overinvestment in size/and growth enhancing assets.

Ricardo (2005), further demonstrates that corporate governance influences performance whenever there is conflict of interest between the management and shareholders, and/or between controlling and minority shareholders. Where managerial discretion is present, firm profitability and by extension performance will be reduced. While owners would wish to maximize profits, agents (managers) may have neither interest nor incentive to do so and therefore corporate performance practices would depend on the ability of the owners to effectively monitor and control managers. In the manager-shareholder conflict the agency problem manifests itself in the management low effort and unproductive investments, known as the perquisites. While in the controlling– minority shareholder conflict, the controlling shareholders use their power to benefit themselves at the expense of minority shareholders, also known as expropriation or private benefits of control. Thus insiders will maximize their pecuniary and non-pecuniary utility at the expense of the firm as a whole. The two models of corporate governance practices can be traced to the two mechanisms controls vis avis internal and external.

Internal mechanisms and control involve monitoring of the board: internal control procedures; balance of power and remuneration. While the external mechanisms include: competition, debt covenants, demand for assessment of performance information, government regulation, managerial labour markets media pressure and threats of mergers and takeovers.

According to Ricardo (2005), managers enjoy more power as they are part of the board or act in connivance and controlling shareholders. This power of controlling shareholders relies effectively on how they can manipulate the board's decision by way of voting majorities. This leaves outsiders with two instruments of counterbalance their power namely: enforcement of adequate corporate governance standards and the existence and

ability to enforce quality regulatory and legal framework to discourage detrimental actions and behaviours of the "insiders".

According to the transaction cost economics model, debt is akin to markets in that it is the cost effective way to finance investment that involves non-specific assets. While equity is similar to the hybrid in that it is most economical for investments that involve specific assets. According to this model, failure to make planned payments may result in bankruptcy in which case debt holders can recover their funds in proportion to the extent that the asset in question are re deployable. Saravia & Jinghanchen (2008).

Life cycle theory of a firm describes how corporate governance develops through various stages of the life cycle of a firm. Dubin (1978) found that management of financially autonomous firms who are also entrenched will tend to over-invest and consequently, their firms will comparatively low valuations. The understanding of how corporate governance affects performance has elicited a great deal of attention in the recent years due to recent corporate failures worldwide. During the 1990s, there were a number of high-profile corporate scandals in the western European countries and the United States of America. This involved major corporations including, Lehman Brothers, AIG Insurance, Xerox, Arthur Anderson, Enron, WorldCom and Tyco. An in-depth reflection on the regulatory role of the government in protecting the interests of shareholders was triggered. And to redress this problem of corporate misconduct, 'sound' corporate governance is essential in maintaining investors' confidence and good performance. In view of the growing number of scandals and the subsequent wide-spread public and media outcry, a plethora of governance 'norms,' 'codes,' 'best practices,' and 'standards' were put in operation around the globe. For instance, the Sarbanes-Oxley legislation in the USA; the Cadbury Committee recommendations in the United Kingdom. A second phase of scandals, leading to collapse

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Enron and Andersen Accounting firms in 2001, although not related to agency problem, triggered another phase of reforms in corporate governance, accounting practices and disclosures, and this time more comprehensive than ever before.

According to Naibo (2006), the Asian financial crisis of 1997-1999, the European Ahold and Parmalat scandals and the US scandals, exposed the importance of effective corporate governance systems and business ethics. They demonstrated that no country has perfect corporate governance systems, and the ideal system is most likely to a holistic combination of several existing successful systems.

There are two models of corporate governance include: 1) The Anglo American model which is characterised by passive shareholders and institutional investors; Board of directors that are always independent of management and more active markets for corporate control; and 2) The European and Japanese corporate governance characterized by coalition of active shareholders and stakeholders that are more independent of management and limited markets for corporate control.

Whilst in the US, rules based approach to corporate governance was codified in the Sarbanes Oxley Act (SOA) in 2002, the European principles based approach was as a result of study by the EU internal directorate. The study recommended that the EU member states to come up with "lowest common denominator" of acceptable rather than the best practices. Commonalities and differences among EU member states in governance practices were looked into. The action plan of enhancement of corporate governance disclosure through: promotion of transparency, strengthening of shareholders rights, improvement of corporate board of directors and assisting member states in governance efforts was mooted through Organization for Economic Co-operation and Development act (OECD).

Shleifer and Vishny, (1997), observed that corporate governance could ensure that the investors gain investment return in organization enabling companies to improve their financial and human resource standing, thus, reducing the agency problem between the managers and shareholders from a financial perspective. On the other hand, from the corporation's viewpoint, corporate governance can ensure that the company's information is exposed correctly and immediately.

Other scholars of corporate governance are also of the opinion that good corporate governance practices involving independent directors, competent and ethical executives, effective internal controls, credible external audits, can play an important role in minimizing the agency problem and ensuring that management's interests are aligned with those of shareholders. For example, Lins (2003), and Kesner, (1987), posits that the ownership ratio of internal directors of a company is significantly and positively related to organizational performance. While Yeh (2002) indicated that the strength of supervisors of the board has a positive relationship with corporate value. "The primary role of all corporate governance participants centres around the fundamental theme of protecting investors, creating long-term shareholder value, restoring investor confidence, and supporting strong and efficient capital markets" quotes Yale, (2007).

Miller, Terek and Hilton (2005), observed that in emerging economies, the business systems is characterized by ownership and control of corporations by families and this has led to governance systems that enables dominant shareholding families to make key decisions on their own, such as appointment to the board of directors. There is therefore a possibility that of conflict of interest between dominant shareholders managers and the minority shareholder managers which could lead to expropriation of minority shareholders (Lehman, 1996; Phom, 2001).

2.2 Local and international empirical studies of corporate governance

Kenya as a country has experienced corporate failures which could be traced to poor governance. Naibo, (2006), in his MBA research, points out that firms such as Kenya National Assurance, Lakestar insurance, Trust bank, and many other financial institutions which collapsed in the yesteryears were due to poor governance.

The relationship between governance and firm performance has attracted a lot of attention all over the world. Unfortunately, very few studies have been done on the African continent as pointed out earlier in the study. Board composition and size has also been singled out as major contributors to governance by scholars. Mbaabu (2010) in her study of 39 companies in the insurance industries in Kenya used board size and composition as proxies of her study and concluded the following: board size and constitutional have a significant impact on the ROE and ROA; block ownership enhances performance. This is supported by earlier studies by scholars such as Millestein and MacAvoy (1998), who also confirmed that a company with better corporate governance implies the appointment of higher proportion of external directors, which make the average performance of the company higher.

Mbaabu (2010) further observed that block ownership enhances performance, perhaps mitigation for managerial misbehaviour, and that the board constitution for listed companies and non-listed companies were not different, despite listed companies being subjected to CMA corporate governance. An indication that the private sector has also embraced governance principles. Kibuchi (2010) on the hand got mixed results on corporate governance effect on ROE which he used as a proxy measure for performance, which is consistent with other prior studies.

A study conducted by Ndun'gu (2010) on Banks in Kenya, revealed that board sizes, presence of inside directors and CEO duality all have significance firm value and performance, and existence of outside directors have no effect on firm performance. Board composition affects performance positively. These results are consistent with prior studies done in other parts of the world. They also observed that remuneration affects profitability in banks and concludes that corporate governance practices have a positive effect on market performance of banks.

Chogii R. (2010) on the other hand looked into board composition (size, proportion of outside directors, proportion of inside directors, role of CEO duality), measuring performance by using tobin's Q and ROA of firms quoted on NSE. He concluded that board size, CEO duality, inside directors are significantly correlated with performance.

He further found that only outside directors is significantly correlated with firm performance using tobin's q. He got mixed results of the same when ROA is used, concluding that firms favoured outside directors which is in line with agency theory. He also found that firms separation of CEO and chairman roles also in line with the agency theory. In this study, we go further and look at the other attributes of board composition like the composition of audit committees and shareholders right to shed light on how they affect firm performance.

Other local studies on governance include Mwanza (2009), who in study on governance practices and performance of Afya SACCO, and found a positive significant relationship between governance scores and performance. He used ROA as a proxy of performance study. Although he only used one firm, his study was quite consistent with other previous studies.

Musyoka (2009), also studied the relationship between capital structure and corporate governance of the firms listed at NSE. His findings were rather interesting in that independence of board positively affects both long term debt and total leverage of a firm, which was quite in tandem with the Kings report (1994, 2002). A pointer that entities should make more use of external directors so as to ensure boards independence and send a positive signal to potential investors. He also found that larger board sizes discourage investors.

The same results are consistent with Ndungu (2010) who studied the link between governance structure and performance in banks listed on NSE., and observed that governance practices adopted by banks has effect on market performance of the banks. He employed tobin's q as proxy for market valuation of banks but his results were mixed and not consistent. He observed that board's size negatively affects banks value, so does frequency of board meetings. While board's composition affects banks market performance positively and there is a positive relationship between remuneration and profitability.

Mukoba (2005), Manyuru (2005), Ngugi (2007), Limo (2009), Murage (2010), and Njoka (2010) in their studies also found results which are consistent with the other studies on the positive significance of governance structures and performance. While Oyoga (2010), found mixed results in that shareholding, compensation, board governance and disclosure as governance indices, are not significantly related to performance. Consistent with prior empirical studies, Kojola (2008), in the study of a sample of Nigerian listed firms between the year 2000 and 2006, opined that the posts and duties of the chairman of board and the chief executive officer (CEO) should be occupied by different persons and the size of the board should be limited.

Brown, Robinson and Caylor (2004), opines that firms with independent boards have higher return to equity, higher profit margins suggesting that boards independence is associated higher firm performance. The same conclusion was also arrived at by Black, Kim, Jang and Park (2003), who in their study of 526 companies on Korean stock exchange found that the corporate governance is a predicator of firm value of Korean firms. And in their later study they also confirmed board's structure as the key driver to firm value and by extension to the firm's performance.

Clacher, Doriye, Hillier and Hellen (2007), also confirms that in the sample of UK firms, and using UK combined code (2003), the higher the degree of compliance with the corporate governance codes the higher the firm value, suggesting that compliance with the codes promotes efficiency within the firm and enhances shareholders value thereby reducing potential agency problems in the UK firms.

Clacher *et al.* (2007), used institutional shareholders and capital expenditure as other proxies of their study and confirms that increase in institutional ownership are positively related to the level of external debt which is indicative that large external shareholders may prefer to utilize debt as a disciplining mechanism. They also confirm that better governed firms have lower capital expenditure, meaning that stronger governance in the firm reduces the ability of executives to over- invest in projects that are not wealth maximising.

Black, Jang and Kim (2003), also constructed a corporate governance index of 0 to 100 of companies listed on Korea stock exchange, based on six sub indices and tobin's q as a measure. They reported an evidence of strong positive correlation between overall corporate governance index and firm value. Gedajilovic and Shapiro (1998), point out that where workers are represented in the board, the incentive as well as the ability to monitor is high,

which is, insiders are charged with the responsibility of corporate of corporate governance, this is internal constraint. This is perhaps a proxy for monitoring managers behaviour. They further argue that in cases of external constraint, where, the shareholder transfers the monitoring responsibility to the markets, those managers who do not maximize return to shareholders will see the firms acquired and themselves displaced in favour of more proficient managers. According to the study done by Bhagat and Bolton (2008), which looks into the endogenous nature corporate governance, management performance and capital structure, they concluded that there is a close relationship between corporate governance, management turnover and corporate performance, an indication that the systematic problems of corporate governance stem from the demand for information by shareholders and stakeholders, monitoring costs and supply of accounting information.

2.3 The pillars of good Corporate Governance

According to PSICGT, there are five basic tenets of good corporate governance namely: Accountability; Efficiency and Effectiveness; Integrity and Fairness; Responsibility, and Transparency.

Accountability is to do with the leadership that must be ready to account, while efficiency and effectiveness is to do with the results. Integrity and fairness is premised on the leadership that is honest faithful and diligent. Whereas, responsibility and transparency has everything to do with capable, responsible, and conscious leader, timely and accurate disclosure of information is equally important. The pillars are hinged on human characteristics of a good leader. That is right attitudes and ethically correct individuals

2.4 Principles and practices of corporate governance

The Capital markets authority (CMA) was established by an act of parliament to promote, regulate and facilitate the development of an orderly, fair and efficient capital markets. The CMA act of cap 485, gazette notice no. 3362, spells out the tenets of CMA with the emphasis on the role of board of directors, the role of the chairman and the CEO, the audit and accountability and shareholders right. The CMA is the body that promotes implementation of corporate governance practices in the listed firms at the Nairobi stock exchange (NSE), by giving guidelines. Kenya's initiative on corporate governance originated through the formation of Private Sector Corporate Governance Trust (PSCGT) in 1999, as a collaboration between the Private sector and other interested stakeholders. It is affiliated with the Commonwealth Association for Corporate Governance and acts as an interim Secretariat to the Pan African Consultative Forum for Corporate Governance. The Principles of good governance covers the following areas: 1) Rights and equitable treatment of shareholders, 2) interest of other shareholders, 3) roles and responsibilities of the board, 4) integrity and ethical behaviour and 5) disclosure and transparency.

Miller et al (2005) argues further that a common factor determining the success of corporate governance practices is the extent to which its structure is transparent to market forces. Transparency is more than pure financial transparency is more than financial transparency as it encompasses factors other than institutional transparency mechanisms. They argue that Social, political and legal environment in a country has effect on the mood of corporate governance. There may be a choice for firms to adopt corporate disclosures in situations where mandatory disclosure is established. The principles of corporate governance are founded upon accountability of power based on the idea that power must be shared to

ensure well being of the organization. There has to be right attitudes, good ethics, practices and high values for good corporate governance to take root in an organization.

According to Johnson and Scholes (2002), there are many factors that will shape the form; the corporate governance will take in an organization. These factors also apply to the air transport industry. These factors include: 1) the culture of the organization. These are the values, beliefs, the business principles, traditions and way of doing business in an organization; 2) Stakeholders interest in the business organization as a whole; 3) The form of ownership, as to whether it is family based, government owned, public owned or a mix of all these; 4) The extent of the information disclosure; 5) Power; 6) Ethical stance, which is extent to which an organization will exceed its minimum obligation to shareholders and society at large; and 7) Politico-legal and economic factor. That is the business cycles, GNP trends, interest rates, money supply inflation rates, population distribution, and political stability of a country, taxation policies, trade regulations and social welfare policies.

Compliance is a major tool of corporate governance. According to study done by Lwangu (2009), found that in a sample 23 companies of non- financial segments in NSE he considered, all companies complied with governance disclosure requirement, but very few, only 21% comply with the CMA regulations and only half way not fully. At the same time 17% complied with the corporate governance and board size regulation. This indicates that CMA in its role is not able to enforce the regulations this is attributed partly due to lack of proper laws on the corporate governance in the country and absence of measures to evaluate effectiveness of corporate of corporate governance. However he found that there is significant relationship between company size and compliance, which is consistent with earlier studies of the same.

Inadequate compliance has also been confirmed by Musikali (2008). In her study, she observed that the legislation and code of corporate governance in Kenya are inadequate to achieve effective corporate governance. The inadequacies, she argues, can be traced to inadequate shareholders right; inadequate training and education of directors and shareholders and Lack of shareholders activism.

2.5 Summary of the chapter

The chapter reviews and highlights the concepts of corporate governance by other scholars in other continents. It also gives an insight to the principles and the tenets of good corporate governance as well as factors that influence corporate governance. The chapter also reviews previous studies on relationship between corporate governance practices and performance in Kenya as well as the institutional framework of corporate governance in Kenya. The chapter also a brief understanding of the air transport industry in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This study investigated the relationship between corporate governance practices and the financial performance of airlines in Kenya. The researcher demonstrated further in the chapter the measure of corporate governance structure by use of corporate governance index (CGI). The airlines under study included local airlines operating at the international airports in Kenya namely Jomo Kenyatta International Airport (JKIA) in Nairobi, Moi International Airport (MIA) in Mombasa and Wilson Airport (WAP) in Nairobi. In this chapter, the researcher described the tools used in measuring financial performance in the study, which included return on assets (ROA), and the measure of the relationship between corporate governance index and the return on assets (ROA), by the use of the regression analysis.

The details of the above were arranged systematically under the sub headings in this chapter namely: the research design, the study population, the sample group, methods used in data collection and the analysis of the data.

3.2 Research Design

Kothari (2004), states that a research design is the arrangement of conditions for collecting and analyzing data in a manner that aims to combine relevance to the research purpose with economy in procedure Cooper and Schindler (2005), also observes that a design is a plan for selecting the sources and types of information used to answer the research questions and a framework for specifying the relationships among the study variables. In this study, the researcher used a survey research design. The survey design enabled the study to measure variables by asking questions and then examining the relationship between the identified

variables. The survey design also allowed the researcher to use questionnaires that generated data on governance areas of shareholders right, Board composition and structure, ownership structure, Disclosure and Audit and compensation policy.

The research design that was used in this study was descriptive. Descriptive research according to Cooper and Schindler (2005) tries to explain relationship among variables and fact finding inquiries of different kinds. Similarly, Kasomo (2006), states that descriptive research is designed to investigate the current nature of a phenomenon.

The quantitative data include figures of the respondents' market value of assets; annual sales or turnover. Quantitative data also include scores from the corporate governance index (CGI) as proposed by Black *et al.*, (2002) and Clatcher *et al.*, (2007). Which assesses the shareholders right (SR), Boards composition and structure (BCS), Ownership structure (OS), Disclosure and Audit (DA) and Compensation policy (CP).

3.3 Study population

According to Cooper and Schindler (2005) is the total collection of elements about which we wish to make some inferences. Similarly, Kasomo (2006) describes a population as any group of institutions, people or objectives that have one characteristic in common. Mugenda and Mugenda (2003), further define target population as that population to which a researcher wants to generalise the results of the findings. The target population for this study consisted of all local airlines companies operating in Kenya. The list of these airlines were obtained from the transport and licensing department of the Kenya civil aviation authority headquarters (KCAA), which is the regulator of Civil aviation in Kenya. In this study the population used was 30. This list was attached in the appendix of this study.

3.4 Sample design

This study used all the elements in the population for the study. This was because the numbers of the local airlines are few and all of them can be covered in the study.

3.5 Data collection

Data collection is the way of collecting the information. The researcher used the standardized structured questionnaires. The questionnaires were divided into two parts. The first part dealt with the corporate governance index (CGI), where the respondent was expected to tick in the space next to the question if the airline complies with the code or cross if it does not. These questions are constructed using information obtained from the best code of practice of corporate governance from the Capital markets authority of Kenya. The second part of the questionnaire in this study was for collecting financial information on Sales volume and assets volume, of the various airlines. In cases where the researcher was unable to obtain the required information from the questionnaires, other sources of information was used. These sources include published financial statements, airline magazines and journals, Information from the various stock exchanges in the internet and airline websites.

Questionnaires were administered by drop and pick method or sent via internet. Respondents of the study was CEOs, or any person appointed by him. This ensured that the quality of the responses is authenticated.

3.6 Data analysis plan

Data analysis involved the organization, summarization and interpretation of the researcher's data using quantitative statistical tools (Kasomo, 2006). The quantitative data

was obtained through the use of standardized questionnaire was analyzed using the two models; the corporate governance index and simple regression model. According to Black et al (2000), the CGI is composed of other sub-indices in this case the researcher has grouped the sub-indices into five namely the shareholders right (sub-index A), the board composition and structure (sub-index B), Ownership structure (sub index C), Disclosure and Audit (sub index D) and Compensation policy (sub index E). The sub-indices are based on a total of 37 survey questions. Each sub-index is constructed to have a score of either 0 or 1. The researcher then standardizes each sub-index to have a value between 0 and 20. This is done by computing a simple sum over the elements of the sub-index and divides by the number of non- missing elements and multiplied this ratio by 20 to arrive at the sub-index value. The Total corporate governance index (CGI) is therefore constructed as:

$$CGI = A + B + C + D + E \qquad (1)$$

The corporate governance index (CGI) had a value of between 0 and 100. The calculated CGI then be compared with average CGI in other industries in NSE. It was expected that poorly governed airlines to have lower scores, while better governed airlines higher scores. Financial performance was analysed using return on assets (ROA). Return on Assets (ROA) is calculated as follows:

$$ROA = \frac{EAIT + IBT}{TA} \qquad (2)$$

Where: $EAIT$ is the earnings after interest and taxes; IBT is the interest before tax, and TA is value of the total assets.

Our year of study is 2010. In a similar study, Black, et al. (2003) constructed a similar corporate governance index (CGI) in their study of 526 companies in the Korean stock exchange based on six sub indices. They used tobin,s q as

their proxy for financial performance. Similarly, Clatcher, et al. (2007), also used the combined code of corporate governance to construct five sub indices to construct corporate governance index in their study of firms in the United Kingdom. The two studies used ordinary least square regression (OLS) to measure the relationship between CGI and financial performance. The above methodology has therefore been widely used and tested worldwide as a measure of corporate governance and financial performance.

Regression analysis is therefore widely used for prediction and forecasting. It is also used to understand which among the independent variables are related to the dependent variable and to explore the forms of relationships. The study therefore used regression model to analyze corporate governance and firm value using various mathematical tools like the mean, standard deviation and ordinary least square (OLS).

The general regression model was given by the following equation:

$$\gamma_0 = \alpha + \beta_1\chi_1 + \beta_2\chi_2 + \dots\dots + \beta_N \qquad \text{--3}$$

γ_0 = Is the value of the dependent variable on the y axis, which is ROA, α is a constant; β are coefficients of independent variable, χ in this case the corporate governance index (CGI).

The researcher regressed corporate governance index CGI against measure of firm performance: return on assets (ROA). A scatter diagram for ordinary least squares regressions of our corporate governance index against the ROA of firm performance was drawn and a line of best fit was fitted. The computer package of SPSS, was used to perform analysis which gave out the printed results From the above procedures the researcher was able to come up with the results which were analyzed and conclusion arrived at.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents the data analysis, interpretation and presentation of the study to determine the relationship between corporate governance practices and financial performance of local Kenyan airlines. Data analysis was done through Statistical Package for Social Scientists (SPSS) version 17. Frequencies, percentages and mean were used to display the results which were presented in tables .

4.2 Performance and compliance

4.2.1 Shareholders Rights

Table 4. 1: Shareholders Rights

	Frequency	Percent
The firm provide sufficient and timely information regarding general meeting to shareholders	25	83.30
The firm allow shareholders to ask questions on agenda items	24	80.00
The firm provide shareholders with adequate information on the	27	90.00
Competences of the board before election of directors	26	86.67
The firm allow shareholders to vote in person or in absentia	14	46.67

The study sought find out the influence of shareholders rights on performance and compliance in the local airlines. From the findings, majority 90.0%,86.7%,83.3% and 80.0% of the respondents indicated the local airlines provide shareholders with adequate information., and also considered the competences of the board before election of directors. The firms also provide sufficient and timely information regarding general meeting to shareholders . The study found that 46.7% of the respondents indicated that firm allow shareholders to ask questions on agenda items.

4.2.2 Director's composition and structure

Table 4. 2: Director's composition and structure

	Freq-uency	Percent
A third or more of board members are independent non-executive	28	93.30
The firm have a formal system of evaluating of directors	20	66.7
There a clear division of the roles of the chairman and CEO	25	83.33
There is search and nomination committee of the board	26	86.67
Directors attend relevant training programmes every financial year	23	76.7
Board members meet at least twice in every financial year	18	60.0
Aspiring directors disclose any potential area of conflict	21	70.0
The directors re-elected after intervals of every 3 years	16	53.0
Nominating committee review its mix of skills & expertise yearly	24	80.0

Source: Clatcher (2007) and Black, Jang and Kim (2002).

The respondents were requested to indicate whether director's composition and structure influence financial performance of the local airlines. From the findings, majority 93.3%, 86.7%, 83.3% and 80.0% of the respondents indicated that the firms have a third (1/3) or more of board members as independent non-executive, and search and nomination committee of the board existed, there was a clear division of the roles of the chairman and CEO and that the nominating committee review its mix of skills and expertise in a given financial year. The study also found that 76.7%, 70.0%, 66.7 %, and 60. % and 53.0% of the respondents indicated that the directors attended relevant training programmes within a financial year, and that the directors who offer themselves for appointment disclose if there is any potential area of conflict, The firms have a formal system of evaluation of directors, the board members meet at least twice in every financial year and that the directors are re-elected after intervals of every 3 years. This implied that director's composition and structures influence financial performance of the local airlines and air chattered.

4.2.3 Ownership Structure

Table 4. 3: Ownership Structure

	Frequency	Percent
Board members own shares	27	90.0
The CEO own shares	22	73.3
There a guideline on share ownership by the directors	24	80.0
There a guideline on share ownership by employees	29	96.7
The aggregate of director's loan exist	11	36.7
Director's loans disclosed in the annual report	23	76.7

Source: Clatcher (2007) and Black, Jang and Kim (2002).

The study sought to find out the influence of Ownership Structures on financial performance of the local airlines. From the findings, majority 96.7%, 90.0%, 80.0% and 76.7% of the respondents indicated that there were guidelines on share ownership by employees, Board members own shares, that there was a guideline on share ownership by the directors and that director's loans disclosed in the annual report. This implied that ownership structures influence financial performance of the local airlines.

4.2.4 Disclosure and Audit

Table 4. 4: Disclosure and Audit

Disclosure and Audit	Frequency	Percent
The firm disclose the chairman's performance report	26	86.7
The firm disclose the board's performance report	23	76.7
The directors have access to the relevant information they require	29	96.7
Auditors independence & qualification are disclosed annual reports	27	90.0
the audit committee independent	26	86.7
members of audit committee have relevant qualification in accounts	28	93.3
the firm disclose audit fees paid to the Auditor	25	83.3
The annual report contains details of board's remuneration	24	80.0
The firm disclose any management of business agreement entered into between the firm and its related companies	27	90.0
The firm disclose a list of major shareholders	23	76.7

Source: Clatcher (2007) and Black, Jang and Kim (2002).

The respondents were requested to indicate whether the disclosure and Audit influence the performance of the companies. From the findings , 96.7%, 93.3%, 90.0%,90.0% 86.7% ,86.7% majority of the respondents indicated that the directors have access to the relevant information they require, members of audit committee have relevant qualification in accounts, the firms disclose the auditors independence and qualification of the auditor in annual reports, The firms disclose any management of business agreement entered into between the firm and its related companies, The firms disclose the chairman's performance report and that the audit committee independent. The study also found that 83.0%, 80.0%, 76.7%, 76.7% of the respondents indicated that the firm disclose audit fees paid to the Auditor, The annual report contains details of board's remuneration, that the firms disclosed the board's performance report and that the firms disclosed a list of major shareholders. This clearly implied that disclosure and Auditing in the companies influenced financial performance

4.2.5 Compensation policy

Table 4. 5: Compensation policy

Statement on Compensation policy	Frequency	Percent
there a remuneration committee	21	70.0
the committee comprised of independent non executive directors	22	73.3
The directors have share options and other forms of executive Compensation in the last one financial year	26	86.7
There a remuneration policy or a policy on other incentives for the board and senior management	28	93.3
The executive pay linked to performance	25	83.3

Source: Clatcher (2007) and Black, Jang and Kim (2002).

The respondents were requested to indicate whether the compensation policy was influencing financial performance. From the findings, majority 93.3%,86.7%, 83.3%

of the respondents indicated that there is a remuneration policy or a policy on other incentives for the board and senior management, that the directors have share options and other forms of executive compensation in the last financial year and that the executive pay was linked to performance. The study further found that 73.3% and 70% of the respondents indicated that the committee comprised of independent non executive directors and that there was a remuneration committee.

4.3 Regression of corporate governance index (CGI) against Return on Assets (ROA).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.927a	.859	.841	.426	1.741	6	.207	8.191	.001(a)

a. Predictors: (Constant), CGI

Adjusted R^2 is called the coefficient of determination which indicates how the Return on assets (ROA) varies with variation in Corporate governance practices which includes Share holders right, Directors composition and structure, Ownership Structure, Disclosure and Audit and Compensation policy. From table above, the value of adjusted R^2 is 0. 814. This implies that, there was a variation of 81.4% on Return on Assets with corporate governance. And there exist a statistical significance with P-Value of 0.01, which is less than 0.05 at a confidence level of 95%

Table 4. 6: ANOVAb

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.826	1	8.826	48.537	.000[a]
	Residual	1.455	8	.182		
	Total	10.281	9			

a. Predictors: (Constant), CGI

b. Dependent Variable: ROA

Regression, Residual, and Total variance was the difference into the variance which can be explained by the independent variables (Model) and the variance which was not explained by the independent variables (Error). The strength of variation of the predictor values Return on Assets dependence variable at 0.01 significant levels.

Table 4. 7: Regression Coefficient Matrix

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.138	.466		-2.441	.040
	CGI	0.059	.008	.927	6.967	.000

a. Dependent Variable: ROA
b. Predictors, Corporate Governance

The regression results shows that when value of the corporate governance indicators/measures used in the study (Split Chairman/CEO Roles ,board size, composition, Committees Independence) are zero, the financial performance of airlines was -1.138. The results also show that board size negatively affects firm's financial performance while board composition, spilt of Director /CEO roles and committee independence affects financial performance positively. Unit increase in corporate governance, leads to increase on financial performance by factors of .059 in financial performance of the local airlines.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The study revealed that the local airlines provide shareholders with adequate information on the, considered competences of the board before election of directors, The firms provide sufficient and timely information regarding general meeting to shareholders and that firm allow shareholders to ask questions on agenda items.

The study established that director's composition and structure influence financial performance of the local airlines. The study also found that the local airlines have a third (1/3) or more of board members as independent and non-executive; existence of search and nomination committee of the board; there was a clear division of the roles of the chairman and CEO and that the nominating committee review its mix of skills and expertise in a given financial year. The study revealed that the directors attend relevant training programmes within a financial year and the directors who offer themselves for appointment disclose if there is any potential area of conflict. The firms have a formal system of evaluation of directors; the board members meet at least twice in every financial year and the directors are re-elected after intervals of every 3 years.

The study established that local airlines had guidelines on share ownership by employees; Board members of the companies own shares; had guideline on share ownership by the directors and that director's loans disclosed in the annual report indicating that ownership structures in the companies influenced financial performance of the local airlines and chartered companies.

The study also found that the disclosure and auditing influence the financial performance of the companies as the directors of the companies had access to the relevant information they require; that members of audit committee had relevant qualification in accounts; there is disclosure of the auditor's independence and qualification of the auditor in annual reports.

The study established that local airlines disclose any management of business agreement entered into between the firm and its related companies disclose the chairman's performance report and that the audit committee independent. The study further found that the company's annual report contains details of board's remuneration, that the firm disclose the board's performance report and that the firm disclose a list of major shareholders.

The study established that compensation policy included the remuneration policy or a policy on other incentives for the board and senior management, directors share options and other forms of executive compensation in the last one financial year and that the executive pay linked to performance.

From the regression analysis, Return on assets (ROA) varies with variation in corporate governance practices which includes Share holders right, Directors composition and structure, Ownership Structure, Disclosure and Audit and Compensation policy. The study therefore established that there was a variation of 81.4% of Return on Assets varied with variation in corporate governance and was statistically significance with P-Value of 0.01 which was less than 0.05 at a confidence level of 95%.
From the regression analysis, corporate governance indicators/measures used in the study (Split Chairman/CEO Roles ,board size, composition, Committees Independence) are zero influenced financial performance of airlines and that without good corporate governance practices companies had negative financial performance .

The results also show that board size negatively affects firm's financial performance while board composition, director or CEO role and committee independence influenced financial performance positively and that increase in corporate governance, leads to increase on financial performance by factors of .059 in financial performance of the local airline.

5.2 Conclusions

The study concluded that corporate governance practices such as Share holder's right, Directors composition and structure, Ownership Structure, Disclosure and Audit and

Compensation policy adopted in companies influenced financial performance of the firm. The study concluded that board size and composition, Splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions, proportion of outside directors, executive remuneration, number of non-executive directors, participation of outside directors and number board of directors affected the financial performance of the companies.

The study further concludes that corporate governance affect Return on assets, .It also concludes that there exist a strong relationship, as the R square value was 0.95 between corporate governance and the financial performance of local airlines in Kenya

5.3 Policy Recommendations

The study found out that the local airlines qualify as having very strong corporate governance practices. The study further revealed that there is a positive correlation between financial performance and corporate governance practices. Based on the study findings and conclusion, the study recommends that there should be strong adherence to corporate governance practices to sustain board's quality of supervision and control of airlines. This will allow for consultations and discussions on the direction the company is to take to counter the changes in the operating environment.

The board should balance the costs and benefits of meetings frequency given that the study established that if the board increases the frequency of its meetings, the recovery from poor performance is faster.

Since it was clear from the study that the local airline companies with a small board size had greater performance, the study recommends that board size should be maintained as small as possible as an increase in board size leads to decrease in financial performance of the company. However, the management should ensure that the board size is optimal as a very small board can also be redundant and may not be efficient in governing the company.

The study also recommends that local airlines should adopt good governance systems as they enhance the financial performance these media house. This include optimal

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mix of inside and outside directions with a small proportion of outside directors and splitting of the roles of chairman and chief executive roles. The study therefore recommends that policy makers in the aviation industry should take serious notice of these findings to implement policies that sustain the already existing strong corporate governance practices.

The study also recommends to the management of local airlines and other organizations to use the findings of this study to upgrade their corporate governance practices so as to remain profitable in this competitive sector.

5.4 Limitations of the study

The main limitation of study was inability to include more organizations. This study focussed only local airlines. The study would have covered more regional airlines based in the East African region so as to provide a more broad based analysis. However, resource constraints placed this limitation. The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the respondent delayed in filling the questionnaire and travelling to collect the filled questionnaire.

The respondents were uncooperative because of the sensitivity of the sensitivity of information required for the study. The researcher explained to the respondents that the information they provided was to be held confidence and was only for academic purpose only.

5.5 Recommendations for Further Study

The study suggests that further studies should be done on local and regional airlines institutions listed in the NSE such Kenya Airways so as to establish the relationship between their corporate governance structures and their financial performance, using Tobin's q as a proxy of financial performance. Further studies should also be done on the effect of financial performance on corporate governance practices and structure of airlines.

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Appendix A

List of airlines

1. Kenya Airways
2. East African Safari Air
3. Jet link aviation
4. Fly 540 aviation
5. Astral aviation
6. Air Kenya
7. Z. Boskovic
8. Mombasa Air safari
9. Blue bird aviation
10. Air amani.
11. Phoenix aviation
12. La pieve
13. Manda air services
14. Safari link
15. Yellow Titan
16. wings
17. Phoenix
18. Pegasus
19. Capital airlines
20. Aircraft leasing services
21. East African air charters
22. 748 Air
23. Precission Air Services
24. Askari Aviation
25. Severin air
26. Unijet
27. Ram Air
28. Safe Air
29. Everret Aviation
30. Flex Air

Source; *Kenya Civil Aviation Authority-Division of Air Transport.*

Appendix B: Survey Questionnaire

Dear Respondent

This questionnaire seeks information that will help the researcher identify the influence of corporate governance on Air transport industry in Kenya, in order write a research project as part of academic requirements for the award of Master of Business Administration (MBA) degree from the School of Business at the University of Nairobi (UoN). Your engagement to participate in the survey is requested.

Note: The information received will be confidential and used for academic purpose only. Questions or concerns about the research study should be addressed to the researcher:

Webby M. O. Liech

University of Nairobi

School of Business

Department of Finance and Accounting

MBA programme

PO Box 30197 - 00100

Nairobi.

Cell phone: 0722407122

Please a tick (v) if the response is yes and a cross (X) if the response is no, at the side.

Section I. Performance and compliance

1. Share holders right	Y/N
A1. Does the firm provide sufficient and timely information regarding general meeting to shareholders?	
A2. Does the firm allow shareholders to ask questions on agenda items?	
A3. Does the firm provide shareholders with adequate information on the	
competences of the board before election of directors?	
A4. Does the firm allow shareholders to vote in person or in absentia?	
A5. Do the shareholders actively participate in major decisions of the company?	
A 6. Is any substantial shareholder who holds 15% of voting shares represented in the board?	

2. Directors composition and structure	
B1. Does the firm have a third (1/3) or more of board members as independent non-executive?	
B2. Does the firm have a formal system of evaluation of directors?	
B3. Is there a clear division of the roles of the chairman and CEO?	
B4. Is there a search and nomination committee of the board?	
B5. Do the directors attend relevant training programmes within a financial year?	
B 6. Do the board members meet at least twice in every financial year?	
B 7. Do the directors who offer themselves for appointment disclose if there is any potential area of conflict?	
B 8. Are the directors re-elected after intervals of every 3 years?	
B 9. Does the nominating committee review its mix of skills and expertise in a given financial year?	

Ownership Structure	
C 1. Do board members own shares?	
C 2. Does the CEO own shares?	
C 3. Is there a guideline on share ownership by the directors?	
C 4 Is there a guideline on share ownership by employees?	
C 5. Does the aggregate of director's loan exist?	
C 6. Are director's loans disclosed in the annual report?	
3. **Disclosure and Audit**	
D 1. Does the firm disclose the chairman's performance report?	
D 2. Does the firm disclose the board's performance report?	
D 3. Do the directors have access to the relevant information they require?	
D 4. Does the firm disclose the auditors independence and qualification of the auditor in annual reports?	
D 5. Is the audit committee independent?	
D 6. Do members of audit committee have relevant qualification in accounts?	
D 7. Does the firm disclose audit fees paid to the Auditor?	
D 8. Does the annual report contain details of board's remuneration?	
D 9. Does the firm disclose any management of business agreement entered into between the firm and its related companies?	
D 10. Does the firm disclose a list of major shareholders?	
D 11. Does the firm have a sound system of internal control?	
4. **Compensation policy**	
E1. Is there a remuneration committee?	
E2. Is the committee comprised of independent non executive directors?	
E3. Do the directors have share options and other forms of executive compensation in the last one financial year?	
E4. Is there a remuneration policy or a policy on other incentives for the board and senior management?	
E5. Is the executive pay linked to performance?	

Section I: Business Profile

1. Name of the company: ______________________________

Section II: Business Financial structure

1. Indicate the proportion of additional capital for the business obtained from the following sources of finance.

Bank loan	
Own saving	
Friends/relatives	
Share issue	
Others	

2. What percentage of the capital in your business is

Own funds	%
Short term borrowed funds	%
Long term borrowed funds	%

Section III: Business Growth

3. What is the value of business total assets and expenditure in the year 2009 & 2010.

Year	Value of Assets	Expenditure
Year 2009		
Year 2010		

4. What is your average monthly sales in the last 3 years

Year	Average monthly sales
Year 2010	
Year 2009	
Year 2008	

5. Has your company experienced growth in sales, assets, new offices in the last 2 years? Yes [ ] No [ ]